



**Betsy Gara
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Connecticut Council of Small Towns
Before the Appropriations Committee
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RE: HB-5044, AN ACT MAKING ADJUSTMENTS TO STATE EXPENDITURES FOR THE FISCAL YEAR ENDING JUNE 30, 2017.

The Connecticut Council of Small Towns (COST) respectfully submits the following comments relative to **HB-5044, the Governor's proposed budget.**

MUNICIPAL AID

Recognizing that the state continues to face ongoing budget challenges, COST sincerely appreciates the efforts of Governor Dannel P. Malloy and the legislature to “keep towns whole” over the last few years. This proposed budget, however, reduces non-ECS municipal aid by 5.75% across the board and eliminates additional ECS funding that that was included in the budget adopted last year.

To mitigate budget cuts to towns, the budget relies on increased grants provided to municipalities under the Municipal Revenue Sharing Account (MRSA). Towns are concerned, however, that MRSA funds may be more susceptible to midyear cuts because the funds have been delayed or swept in previous years to address budget deficits. Midyear cuts are very difficult to absorb on the local level and can wreak havoc with the delivery of local services.

For the vast majority of small towns, state aid to municipalities has been flat funded for several years, requiring towns to fund a larger portion of education and other programs from property tax revenues. As a result, town budgets are under enormous strain because the cost of providing education, public safety and other critical services has increased every year, despite efforts to control costs on the local level.

The proposed budget relies on several changes that raise concerns for municipalities, including:

LOCAL REVENUE EROSION

- **Business Personal Property Tax Exemption** - The Governor’s proposed budget includes provisions in a separate bill which would exempt up to \$10,000 in business personal property from local taxation, wiping out a sizable pot of money that municipalities rely on to fund local programs;
- **Delinquent Motor Vehicle Taxes/Tickets** - Another budget proposal undermines what is a very effective tool in collecting delinquent property taxes and unpaid tickets – prohibiting the motor vehicle department from processing vehicle registrations until the taxes/tickets are paid to the



municipality. The DMV is not acting as a collection agency – it is merely advising individuals of their obligation to pay their taxes. An estimated 5% of property taxes are collected due to the ban on processing registrations/renewals.

MORE COMMISSION LAPSES

The proposed budget continues to rely on a \$20 million lapse for state aid to municipalities based on savings that municipalities are purportedly realizing as a result of the implementation of MORE Commission recommendations. Unfortunately, the recommendations that have been adopted by the legislature, to date, have not produced any real savings. Instead, promising shared services/regional programs are in danger of being cut, including the State's Nutmeg Network, which can assist towns in sharing back office functions to reduce costs, and Fire Training Schools, which allow municipalities to share in the cost of training fire service personnel.

PILOT REIMBURSEMENTS

The proposed budget includes provisions (HB-5049) eliminating the hold harmless clause which prevents towns from receiving less PILOT funding than they received for the FY ending June 30, 2015. Given the tiered PILOT reimbursement structure adopted last year, eliminating the hold harmless provision may negatively affect PILOT funding for small towns.

MUNICIPAL SPENDING CAP

One of the most frustrating aspects of the state budget adopted last year is the Municipal Spending Cap which prohibits municipalities from increasing their budget expenditures by more than 2.5% or the rate of inflation, whichever is greater. Municipalities that exceed the cap are faced with a reduction in their MRSA grant of 50 cents for every dollar they exceed the cap. This can be a big chunk of money for a small town, particularly if more municipal aid is shifted from statutory formula grants to MRSA.

The municipal spending cap, coupled with flat or reduced state aid to municipalities and costly state and federal mandates, puts towns between a rock and a hard place in crafting local budgets. On the one hand, under the Minimum Budget Requirement, towns must spend at least the same amount on education that they did in the previous year, with very limited exceptions. And for the vast majority of small towns, education makes up at least 70% of their local budget and in some towns as much as 80%. In addition, towns are required to expend considerable resources in complying with a wide range of state and federal mandates.

At the same time, municipal aid for most small towns has been largely flat funded over the last ten years, although the cost of education, public safety, public health, transportation, construction and other municipal services has increased significantly. As a result, in order to keep pace with the cost of delivering critical services, many towns must increase local budget expenditures by more than 2.5%. But under the Municipal Spending Cap, these towns will face a potentially sizable penalty.

According to the Advisory Commission on Intergovernmental Relations (ACIR), in FY 2014-2015:

- More than 49% of municipalities had a budget increase of 2.5% or more;



- 59 municipalities had a budget increase of more than 3%; and
- 111 municipalities had a budget increase of more than 2%.

The municipal spending cap also penalizes communities that are increasing local budgets to invest in local infrastructure and economic development projects or grow their grand lists - activities that will help strengthen our local economies and create jobs and which should be supported rather than undermined.

INVESTMENT IN EDUCATION

➤ ECS Funding

The proposed budget continues to level fund the Education Cost Sharing (ECS) grant for FY 15-16. However, it has long been recognized that ECS is woefully underfunded, placing a tremendous burden on local property taxpayers. While we recognize that it is not feasible to fully fund ECS at this time, **Connecticut should begin to develop a long range plan for phasing in increases to the ECS grant with the goal of fully funding the program to provide adequate fair share funding for all towns.**

➤ Special Education

The local share of special education now exceeds \$1.8 billion, accounting for roughly 22% of all education spending in Connecticut. Special education costs continue to drive up education budgets across the state, regardless of the relative wealth of a community. Moreover, the costs associated with the provision of special education services are very unpredictable, creating difficulty in managing and budgeting costs at the local level.

Connecticut needs to begin to address this issue to assist towns in meeting their obligation to provide *all* students with a quality education. COST supports legislation to: 1) Reduce the threshold for reimbursing special education costs from 4.5 times the average per pupil expenditures; (2) Require the state to pay 100% of the costs of special education for severe-needs students; (3) Eliminate the cap on special education funding, which significantly decreases the reimbursements to towns; and (4) Shift the burden of proof in special education hearings from the school district to the claimant, consistent with federal standards.

INVESTMENT IN INFRASTRUCTURE AND ECONOMIC DEVELOPMENT

COST applauds the efforts of Governor Malloy and the legislature to invest in local infrastructure and economic development by maintaining funding for the Town Aid Road, Local Capital Improvement Program, Small Town Economic Assistance Program, Clean Water Fund, Local Bridge Program and school construction grant program. These programs are vital to strengthening our local economies. We are concerned that the proposed budget eliminates the Office of Broadband Access and hope that this does not impede efforts to create a competitive telecommunications market to support high-speed broadband technology in our communities.